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## Annual Meeting

The Annual Meeting of Shareholders will be held at the Company headquarters in Coeur d'Alene, Idaho, Friday, May 8, 1987, at 9 a.m., Pacific Daylight Time.

## Selected Financial Data

(dollars in thousands except for per-share amounts)

Years Ended December 31

	1986	1985	1984	1983	1982
Total revenue .....	\$ 62,057	\$ 82,579	\$ 113,750	\$ 149,669	\$ 96,771
Income (loss) from continuing operations before extraordinary credit .....	\$ (21,232)	\$ (8,918)	\$ 7,629	\$ 30,494	\$ 8,278
Income (loss) from discontinued operation .....		4,694			(3,599)
Extraordinary credit .....			3,617	7,075	
Cumulative effect of change in accounting for supplies inventory .....			846		
Net income (loss) .....	\$ (21,232)	\$ (4,224)	\$ 12,092	\$ 37,569	\$ 4,679
Income (loss) per common share from continuing operations before extraordinary items .....	\$ (0.79)	\$ (0.33)	\$ 0.29	\$ 1.16	\$ 0.34
Net income (loss) per common share .....	\$ (0.79)	\$ (0.16)	\$ 0.45	\$ 1.43	\$ 0.19
Total assets .....	\$ 140,281	\$ 170,932	\$ 190,305	\$ 222,100	\$ 146,324
Long-term debt - Notes and contracts payable .....	\$ 516 <sup>(1)</sup>	\$ 562 <sup>(1)</sup>	\$ 546 <sup>(1)</sup>	\$ 9,930	\$ 11,222
Proceeds from sale of future production .....				\$ 13,079	\$ 16,496
Dividends - Per common share .....	\$ 0.05	\$ 0.20	\$ 0.20	\$ 0.17	\$ 0.03
Common shares issued (at year-end) .....	26,993,738	26,993,738	26,986,699	26,917,024	17,736,602*
Shareholders of record (at year-end) .....	19,749	20,708	21,037	18,244*	16,927*
Employees (at year-end) .....	653	945	1,055	709*	560*

\*Prior to Ranchers Exploration and Development Corporation acquisition.

(1) Long-term debt is included in other noncurrent liabilities in 1986, 1985 and 1984.

## Average Metal Prices

	1986					1985
	1st Qtr.	2nd Qtr.	3rd Qtr.	4th Qtr.	Year	
Gold - \$ per oz. (London Final)	343	342	381	404	368	317
Silver - \$ per oz. (Handy & Harman)	5.86	5.17	5.32	5.54	5.47	6.14

## Hecla Stock Price on New York Stock Exchange

	Low	High	0	4	8	12	16	20	24	28
1986	8 3/8	16 1/4								
1985	13 7/8	18 1/8								
1984	13 1/4	23 1/2								
1983	16 1/8	26 3/8								
1982	6	18 7/8								



## To Our Shareholders

*"We intend to remain the premier domestic silver producer by finding or acquiring new ore deposits and by improving our competitive position through more efficient operations. At the same time, we intend to expand our industrial minerals business and to further diversify into the production of high value metals with an attractive future."*

The year 1986 was our second consecutive year of consolidation and belt tightening as we continued to wait out the current slump in silver price. The silver price in 1985 was not good, averaging \$6.14 per ounce, but 1986 was worse, with an average price of \$5.47. Fortunately, the price of gold was significantly higher this year than last. Although this led to a sharp increase in earnings from our gold operation and while the performance of our industrial minerals business continued strong, we reported a loss for the year greater than that for 1985.

The loss for 1986 was \$21.2 million or \$0.79 per share compared to a loss in 1985 of \$4.2 million or \$0.16 per share. The 1986 figure includes noncash write-downs of approximately \$8.5 million, largely as a result of the revaluation of inactive mining properties and other real estate. The 1985 figure included an extraordinary credit of \$4.7 million from a discontinued operation. Although 1986 performance was totally unsatisfactory, the draw-down of our cash and equivalents which occurred during the year was limited to expenditures we chose to make for plant and equipment to strengthen our position for the future.

Some good things happened to our operations during the year. The earnings of our Republic gold mine were 51% higher than last year, despite heavy development costs, making it once again the largest contributor to corporate income. We continue to expand ore reserves there. Our Kentucky-Tennessee Clay Company had another good year despite increased competition, and was again the second largest contributor to corporate income. The earnings of Colorado Aggregate Company were down from last year as a result of intense competition in the barbecue briquette business, but this subsidiary was again the third largest contributor to corporate income. In both of these subsidiaries we are mounting a major effort to increase market share and increase profitability. Our interests in the Coeur and Galena silver mines remained marginally profitable through the year.

A number of economy steps were taken during the year to maintain our financial strength. Probably the most extreme was the suspension of operations in April at our Lucky Friday mine, long considered our flagship operation. With current silver prices, the losses and negative cash flow from operations became unacceptable, even though shut-down and holding costs were substantial. The major portion of these costs are now behind us and the benefits of the suspension should become apparent early in 1987. When

silver prices improve, we expect the Lucky Friday to regain its position as the largest silver producer in the nation. In other economy moves, salaries were rolled back 10% for all metal mining division and corporate staff and the salaries of vice presidents and above were rolled back 15%. Wage scales at the Escalante mine were cut 10% as part of a successful effort to maintain a positive cash flow from that operation. In addition, an early retirement program was offered to a group of older employees. Exploration expenditures were reduced substantially with the termination of two expensive, deep underground exploration programs on properties of Consolidated Silver Corporation and Allied Silver-Lead Company. Finally, after a dividend of five cents per share was paid during the first quarter, the Board of Directors suspended further dividends to conserve cash.

In addition to normal operations, we were engaged during the year in a number of other actions intended to maintain our position as the premier domestic silver miner, while increasing our interests in gold, other high value metals, and industrial minerals. We completed our program of consolidating corporate technical and administrative staff in a new corporate headquarters building in Coeur d'Alene, Idaho. Although this move involved a substantial expenditure, its beneficial impacts on Company performance are already becoming apparent. We expect that the sale of real estate made surplus by the move and excess land acquired as part of the move will offset much of the cost. We took steps intended to lead us into the mining and production of beryllium, yttrium, and other rare earth compounds. The markets for these high value metals are expected to experience high growth in the years to come. Although we have always employed both exploration and acquisitions to achieve corporate growth, we have this year placed increasing emphasis on acquisitions and have developed an effective team to focus on this activity.

As these actions indicate, our business strategy has not changed. We continue to believe that silver is currently underpriced and that the price will improve in the not too distant future. We intend to remain the premier domestic silver producer by finding or acquiring new ore deposits and by improving our competitive position through more efficient operations. At the same time, we intend to expand our industrial minerals business and to further diversify into the production of high value metals with an attractive future. We are confident that this plan is the best way to serve the outstanding people who are our shareholders, employees and customers.





William A. Griffith (left), Arthur Brown (right).

At its meeting in May of this year, the Board of Directors named Mr. Roger A. Kauffman Vice President - Industrial Minerals and Mr. Elmer L. Bierly Vice President - Investor and Public Affairs. Those promotions not only recognized outstanding performance by these two individuals, but also the increasing importance of the activities they direct. The Board also named Mr. Arthur Brown President and Chief Operating Officer. This promotion recognizes outstanding performance and paves the way for an orderly transition when I retire at age 65 after our annual meeting.

Mr. Fred E. Burnet will retire as a director at the 1987 annual meeting, having reached the mandatory retirement age for directors. Mr. Burnet has served Hecla as a director since 1981, and has been a particularly dedicated and effective director. We shall miss having the benefit of his broad experience and wise counsel.

Wm. A. Griffith  
Chairman of the Board and  
Chief Executive Officer

Arthur Brown  
President and  
Chief Operating Officer

I have enjoyed the 19 years of my association with Hecla Mining Company and consider it a privilege to have been a member of such an outstanding group of people. The eight years since I was named President and Chief Executive Officer have been particularly exciting and challenging, and I am grateful for the support and cooperation I have received from our shareholders and all of the Hecla team. Although I would have preferred to retire at a time of rising profitability, at least I leave confident that Hecla has an outstanding management team in place to carry on and is well positioned for the future.



## Precious Metals

Gold continued to lead Hecla's precious metals operations in 1986. Of major importance was completion in November of the \$2.2 million new shaft and hoisting facilities at our Republic Unit gold mine near Republic, Washington. The new shaft will improve efficiency and productivity as mining activities proceed into the new Golden Promise ore body. Gold production of nearly 40,000 ounces in 1986 was slightly higher than the previous year, although somewhat less than expected due to extensive development work required to open up the new Golden Promise ore body. This work was completed late in the year and 1987 gold production at Republic is expected to be substantially higher.

Exploration and development work at Republic continues to bring encouraging results. Proven and pro-

bable ore reserves of approximately 372,000 tons averaging 1.0 ounce of gold and 4.5 ounces of silver per ton have been established. Drilling indicates another 756,000 tons of mineralized material containing 0.39 ounces of gold and 1.7 ounces of silver for an estimated total of over 1 million tons of proven and probable ore reserves and mineralized material.

Production at the Company's largest silver producer, the Lucky Friday mine near Mullan, Idaho, was halted on April 11, 1986 due to depressed silver prices. The mine is being maintained for a quick return to production when silver prices improve to a level where profitable operations can be expected. Experimental work on the new underhand longwall mining method (LFUL) was successfully completed dur-

ing the year. A scheduled phase-in of the new mining method is planned when operations resume. The mine produced 1,324,000 ounces of silver during its 3½ months of operation in 1986.

The Escalante Unit in Southwest Utah continued to operate at normal levels producing 2,274,000 ounces of silver in 1986.

Both the Galena mine near Wallace, Idaho, and the Coeur mine near Osburn, Idaho, operated at normal levels throughout the year. The Galena, in which Hecla maintains an effective 12½% interest, produced 500,000 ounces of silver for Hecla's account and the Coeur, in which we have a 5% interest, added another 137,000 ounces. Both mines are operated by ASARCO Incorporated.



# Industrial Minerals

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Industrial minerals penetrate the entire fabric of modern society. They include a broad range of nonmetallic, nonfuel minerals from sand and gravel to industrial diamonds, and are found in virtually the whole array of consumer products. Ball clay and scoria fall into the classification of industrial minerals.

Ball clay is a fine-grained, plastic, white firing clay used principally for bonding in ceramic ware. The clay is of sedimentary origin and consists mainly of the minerals kaolinite, sericite, mica and a slight amount of organic content. Ball clay is used in sanitaryware, pottery, floor and wall tile, refractories, fine china and dinnerware, electrical porcelain and many other applications.

Scoria is a clinker-like material produced during the volcanic eruption process as magma is thrust up and cooled to form cinder cones. It is lightweight, and has a desirable natural color ranging from pink through deep red to black, making it popular for landscape applications in both boulder and gravel size. Scoria is also used in gas-fired barbecues where it provides a safe, efficient heat transfer media.

Kentucky-Tennessee Clay Company, headquartered in Mayfield, Kentucky, operates 17 open-pit ball clay mines in Kentucky, Tennessee and Mississippi. Processing plants are located near Mayfield, Kentucky; Whitlock and Gleason, Tennessee; and Sledge, Mississippi.

With over 60 years of service, Kentucky-Tennessee Clay has gained a solid reputation for providing the highest quality of ball clay products available. Exacting chemical and physical properties are assured by the continued application of statistical process control, a system which provides constant monitoring of physical and chemical properties of Kentucky-Tennessee products.

Capital improvements for the year included a major expansion of clay inventory facilities at the Gleason plant, and upgrading of mining and hauling equipment on a company-wide basis.

The company maintained its dominant position in the domestic ball clay market, supplying approximately 50% of U.S. requirements in 1986. Nearly 400,000 tons of specialty ball clay products were shipped throughout the United States, Canada and Mexico. Clay reserves were expanded during 1986, and remain in excess of 20 years at current production rates.

Colorado Aggregate Company operates mines located in New Mexico and Colorado, providing a strategic position to eastern markets and a grade of material that is lightweight and offers a unique variety of colors. Processing plants are located at Blanca and Mesita, Colorado, with company headquarters in Blanca.

Colorado Aggregate Company's volcanic scoria products have a widely diverse market throughout the United States, Canada and several overseas locations. The Company produces

three main products: landscape scoria used for decorative cover; briquettes for gas-fired barbecue grills; and a new product introduced in 1986, aquarium gravel. Scoria in aquarium use provides for a very desirable ecosystem which supports natural plant life root systems and tank balance.

Product shipments of 55,000 tons in 1986 were up slightly as a result of higher landscape scoria sales, although briquette sales were somewhat lower. Early marketing results for aquarium scoria have been encouraging.

Colorado Aggregate Company has 8 to 10 years of reserves at its New Mexico mine, and over 20 years of reserves at the Colorado location.



# High Growth Metals

In July, Hecla and Highwood Resources Ltd. of Calgary, Alberta, Canada, announced a joint venture to determine the economic feasibility of developing the Thor Lake, Northwest Territories, high growth metals deposit. A definitive agreement was announced on September 3, 1986. The agreement calls for Hecla to complete detailed feasibility and marketing studies by February of 1988.

If the studies are favorable, and a decision is made to proceed with commercial development, Hecla will earn a 50% interest in the project by reimbursing Highwood, the property owner, for 50% of its prior expenditures, estimated at \$8 million Canadian.

The Thor Lake deposit, located approximately 100 kilometers southeast of Yellowknife, Northwest Territories,

Canada, contains approximately 1.8 million tons of 0.76% beryllium oxide reserves of which 507,000 tons grade 1.11% beryllium oxide, 0.17% yttrium oxide and 0.58% niobium oxide. Preliminary metallurgical work indicates acceptable recoveries of both beryllium and yttrium. High-grade zones of niobium and lanthanides have been encountered and continuing studies will evaluate their economic attractiveness. Gallium, tantalum, columbium and zirconium are also present in the deposit.

The Thor Lake property consists of 5 major mineralized deposits with beryllium, yttrium, niobium and rare earths occurring as replacement zones in altered syenite. Of the five major mineralized deposits, only two have been sufficiently drilled to establish proven and probable ore reserves. A large tonnage of zirconium, niobium, tantalum and rare earths mineraliza-

tion exists in another deposit, but more drilling is required prior to estimating reserves.

Highwood Resources Ltd., a special and precious metals exploration and development company with properties in three Canadian provinces, first discovered the Thor Lake deposit in 1976. Since then Highwood has completed over 50,000 feet of diamond drilling, built a road from Great Slave Lake to the project site, driven a 1500-foot decline into the ore body, and completed test mining and bulk sampling of the deposit.

Hecla's first priority with the Thor Lake deposit is to investigate the economic feasibility of beryllium and yttrium production. Initial market studies and metallurgical test work have been encouraging. Planning, testing and economic analysis will continue in 1987.



## Exploration

Exploration efforts in 1986 concentrated on increasing the ore reserves at existing gold and silver properties, continuing the search for new precious metals opportunities and an increased emphasis on high growth metals.

At Republic, Washington, ore reserves were further defined and drilling continued in the new Golden Promise ore body. In addition, geologic studies and geophysical surveys indicate the possibility of previously unknown veins on property somewhat removed from the Knob Hill mine and Golden Promise areas. These targets will be explored through drilling in 1987.

Estimates of oxidized gold bearing mineralization at the Golden Dome project near Sierraville, California,

were increased to 1,331,000 tons at 0.074 ounces of gold per ton. Studies are currently under way to determine the feasibility of developing Golden Dome as an open pit, heap leaching operation.

Results of exploration activities in the Silver Valley of North Idaho were disappointing in 1986. At the Allied Silver Project, exploration work on the 5100-foot level of the Lucky Friday mine near Mullan was unsuccessful in finding a deep projection of the Web Lease vein, which exists at the surface and had been encountered in a 1700-foot drill hole intercept. Also in 1986, exploration activities at the Consolidated Silver mine in Osburn were suspended due to continued low silver prices and disappointing results. Even

though at times there were encouraging indications, nothing resembling an economic ore body was discovered during the 5-year exploration program.

At the Escalante mine in Utah, extensive drilling to the north of the mine has disproven the existence of any significant new ore deposits on the main Escalante vein or on the vein which was newly discovered in 1985. Work to determine whether the vein extends to the south of the present ore body will continue in 1987.

Hecla maintains exploration offices in Coeur d'Alene, Idaho; Reno, Nevada; and Denver, Colorado.

## Other Interests

At Callahan Mining Corporation's Caladay Silver Project near Wallace, Idaho, exploration drilling on the 4900-foot level encountered no significant mineral intercepts during the year. Callahan plans to continue drilling on the existing 4900 level drift until current exploration targets are probed. Hecla presently maintains a 12% overall ownership in the Caladay Project.

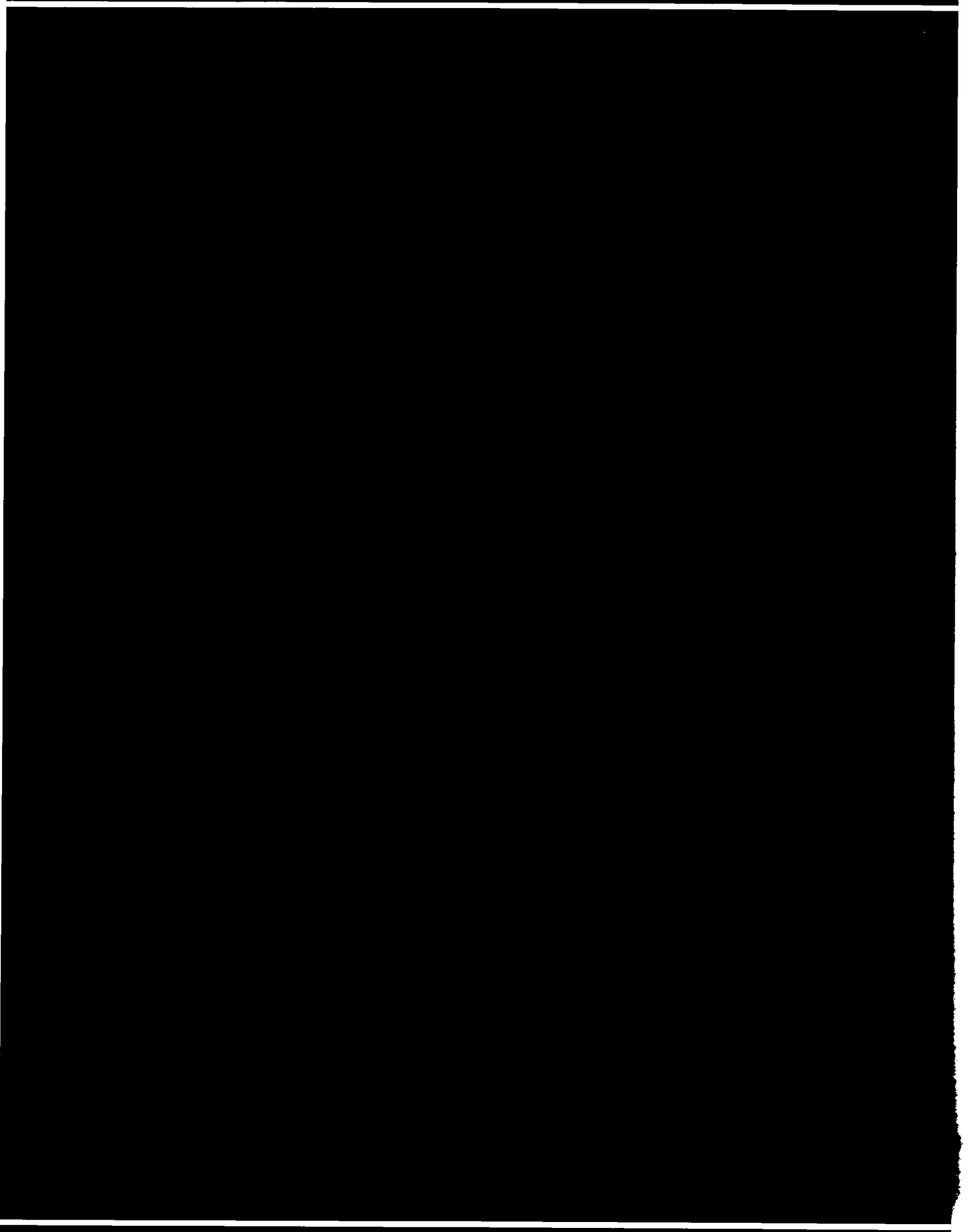
Hecla owns 35% of the common stock and all of the preferred stock of Granduc Mines, Limited, Vancouver, British Columbia. Exploration work by Newcana, a joint venture of Newhawk Gold Mines Limited and Lacana Mines Corporation, formed in 1985, to ex-

plore Granduc's Sulphurets gold-silver property, continues to bring encouraging results. Newcana, having expended over \$2 million during the 1985 and 1986 seasons, has earned a 60% interest in the property. Under terms of the agreement between Granduc and Newcana, Granduc has the option of retaining its 40% interest by funding its share of expenditures in excess of \$2 million or allowing itself to be diluted to a non-participating 20% net proceeds interest. Granduc has elected to participate in the first stage of the 1987 work program involving total estimated expenditures of \$1,440,000 for further underground development and diamond drilling.

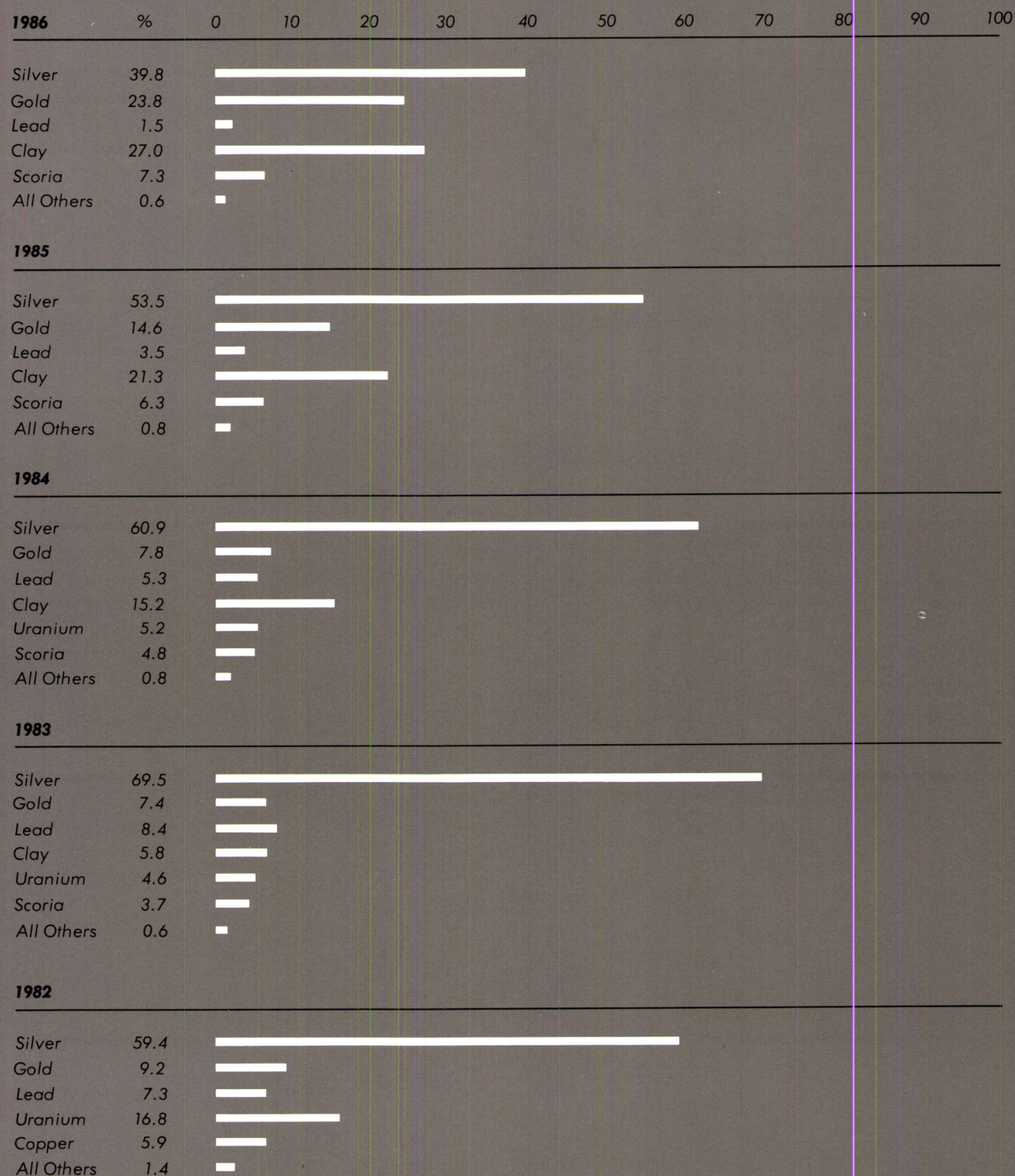
The Lisbon Valley uranium-vanadium mine near Moab, Utah, the Florence-Queen silver mine at Neihart, Montana, and the Revenue-Virginus silver property near Ouray, Colorado (written down in 1986), were all maintained on care-and-maintenance status during 1986.

At the Stibnite property near Yellow Pine in Central Idaho, an estimated 800,000 tons of oxidized proven and probable reserves containing 0.10 ounces of gold per ton have been established. Plans for heap leach processing of this material are now under way.

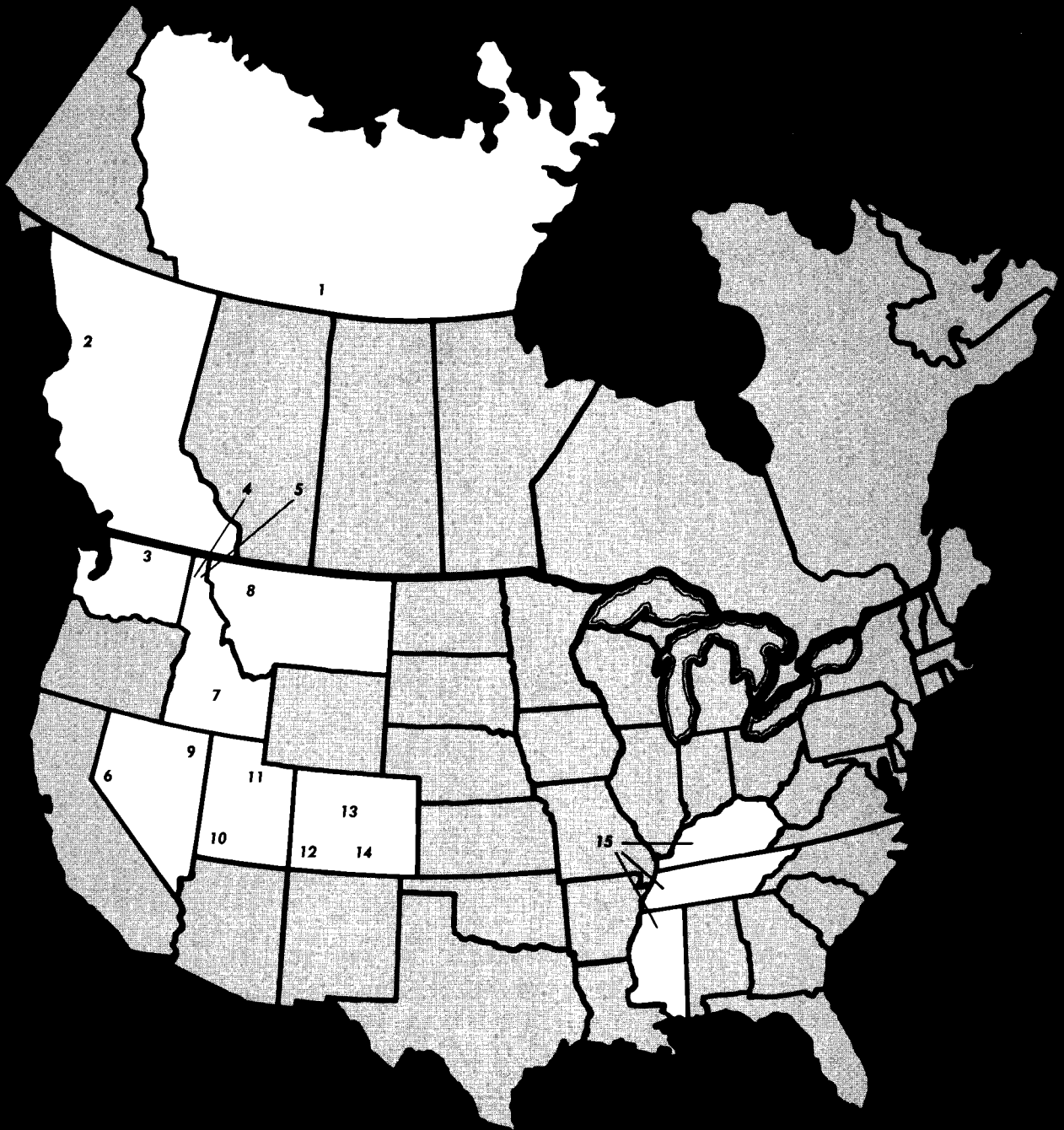




# **Total Sales Revenues by Product** (% , Last Five Years)







# Management's Discussion and Analysis of Financial Condition and Results of Operations

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## Results of Operations

### 1986 versus 1985

The net loss increased to \$21.2 million for 1986 from a net loss of \$4.2 million for 1985. Included in the 1986 loss was \$8.5 million (net of income tax benefit) of noncash write-downs and accrual of costs related principally to the carrying value of inactive mining properties and other real estate. The major items included in the write-downs were a \$5.5 million (net of income tax benefit) write-off of the Company's interest in the Revenue-Virginus mine near Ouray, Colorado; the disposition of the remaining properties of the Ranchers Gold and Silver Exploration Program - 1980 (a limited partnership); the anticipated sale of the Company's interests in the Sherman mine near Leadville, Colorado, and the Tungsten Queen mine in North Carolina; and other real estate adjustments. In 1985 the net loss was reduced by \$4.7 million of income from the discontinued operation of the Lakeshore partnership.

Sales of concentrates and products decreased by \$18.5 million (23.3%) from 1985 to 1986. The major reason for the decrease was that due to low metal prices, commercial operations were suspended at the Company's Lucky Friday mine on April 11, 1986. In 1985 the Lucky Friday mine was the largest domestic producer of silver. The decrease in the average silver price to \$5.47 per ounce in 1986 from \$6.14 per ounce in 1985, or 11%, and a decrease in the overall average selling price in industrial mineral products due to competitive considerations also had a negative effect on sales. Partially offsetting the downside factors was an increase in the average gold price to \$367.51 per ounce in 1986 from \$317.26 per ounce in 1985, or 16%.

Operating costs and expenses decreased by \$11.8 million (19%) from 1985 to 1986, primarily due to the suspension of commercial operations at the Lucky Friday mine. The decrease in costs was not proportional to the decrease in sales as certain costs continue at standby properties, and at the Lucky Friday in particular, experimental work continued on the new underhand longwall mining method. Work on the underhand longwall mining method has been successful and was essentially completed by the end of 1986. The Company plans to implement this new mining method when operations are resumed at the Lucky Friday mine. Overall operating costs at the other operations were normal and were slightly lower in 1986 as compared to 1985.

At the time of suspension of commercial operations at the Lucky Friday mine, other steps were initiated by the Company designed to preserve the Company assets and financial strength during this current period of low metal prices. These other steps included: (1) a salary rollback for salaried employees in the metal business segment and the corporate staff (the rollback was 15% for all officers of the rank of vice president or higher, and 10% for the other salaried personnel); (2) a reduction in personnel at the Hecla Shop and Gem Laboratory; (3) hourly wages at the Escalante mine in Southwest Utah were reduced by 10%; and (4) operations at The Consolidated Silver Project near Osburn, Idaho, were curtailed. Since August 1986, all operations at The Consolidated Silver Project have been suspended and the property placed on a standby basis. Another factor influencing the decrease in operating costs and expenses was divestiture of unprofitable properties that operated for a part of 1985.

Other expenses increased by \$5.9 million from 1985 to 1986. The largest item causing the increase was \$9.6 million for the reduction in the carrying value of mining properties as discussed above. Exploration costs were \$2 million less in 1986 as compared to 1985 and depreciation, depletion and amortization decreased by \$2.7 million. The decrease in depreciation, depletion and amortization was primarily due to the suspension of depreciation charges at the Lucky Friday mine based on the unit-of-production method. The increase of \$1 million in general and administrative expense was primarily due to costs associated with the employment contracts of former Ranchers Exploration and Development Corporation executives, and to the establishment of a new business development position in the Company.

Interest and other income decreased by \$2.0 million from 1985 to 1986, of which \$849,000 was in interest and dividend income and \$1.2 million in other income. The decrease in interest and dividend income was primarily due to a decrease in interest rates and in the funds available for short-term investments. The decrease in other income was primarily due to a decrease in the gains from the sale of investments and surplus equipment and supplies.

The income tax benefit of \$2.0 million in 1986 is primarily due to the reversal of previously established deferred taxes associated with the 1986 write-down of the Revenue-Virginus property.



### 1985 versus 1984

The net loss for the year ended December 31, 1985 of \$4.2 million is a change of \$16.3 million from 1984's net income of \$12.1 million. Sales revenue decreased 27% or \$30 million. The decrease in sales and the \$24.1 million gain on the sale of the Sunshine Unit Area in 1984 were the primary reasons for the decrease in net income. The reduction in sales revenue was primarily due to a decrease in average metal prices in 1985, and the end of profitable uranium sales in 1984.

Operating income from the Company's metals business decreased by 66% from 1984 to 1985. The decreases in average metal prices which had the largest impact on sales and operating income were 25% for silver, 12% for gold and 25% for lead. In 1984, approximately 167,000 pounds of uranium were sold and contributed approximately \$2.5 million to operating income. The Company's contractual commitments to deliver uranium expired in 1984. In 1985, approximately 200,000 pounds of stockpiled uranium were sold at its inventory carrying value.

Sales for 1984 also included production from the Sunshine Unit Area until April 1984 when Hecla sold its interest in the Sunshine Unit Area, and production at the Leadville Unit which was suspended in September 1984. In comparing the net results of the two periods, the loss of production from these two properties had a positive impact on operating income in 1985.

Operating costs and expenses decreased by \$10 million, or 14%, in 1985, compared to 1984. The decrease in operating costs and expenses was primarily due to the elimination of costs that were associated with the Sunshine Unit Area, Leadville Unit, the Golden Eagle gold mine in Alaska (which was sold in 1985), and the uranium sales. Normal production levels were maintained at the Company's other operating properties throughout 1985.

Operating income from the Company's industrial minerals business decreased by approximately 9% from 1984 to 1985, and was primarily due to price concessions in selected product lines reflecting increased competitive pressures. The industrial minerals business continued to be an important factor in the Company's operations, particularly in view of the current depressed metal prices.

The decrease of \$1.1 million in interest and other income is primarily due to a decrease in interest rates and a decrease in cash available for short-term investments. The decreases were partially offset with income generated from the sale of surplus assets and investments in common stock.

General and administrative expense decreased approximately \$8.8 million, exploration expense \$3.2 million and interest expense \$1.2 million in 1985. The decrease in general and administrative expense is primarily due to fewer administrative staff personnel in 1985 and \$6.8 million of costs that were incurred for the Ranchers merger in 1984. The decrease in exploration expense is primarily due to planned curtailments of certain projects in 1985.

Net income for 1985 includes income of \$4.7 from discontinued operations, recognizing Hecla's share of the remaining net assets of the Lakeshore partnership, which was terminated in October 1985, after all commitments of the partnership expired.

The 1985 decrease in the provision for income taxes and the extraordinary credit is because the Company had a tax loss in 1985.

### Financial Condition and Liquidity

Cash and cash equivalents decreased to \$2.3 million at the end of 1986 from \$8.7 million at the end of 1985. The major uses of cash in 1986 were \$6.6 million for properties, plants and equipment (net of dispositions), \$2.7 million in operations and \$1.3 million for dividends. The cash provided from working capital in 1986 totalled \$4.6 million.

The Company's primary sources of liquidity are internally generated funds and its \$50 million Bank Credit Agreement. Although losses were reported for 1986 and 1985, the Company has maintained a strong balance sheet. At the end of 1986, assets totalled \$140.3 million and shareholders' equity amounted to \$118.2 million. The Company had no significant long-term debt at December 31, 1986; however, borrowings against the bank credit line will be made in the first quarter of 1987. Refer to the discussion in the Results of Operations above for 1986 versus 1985 regarding specific actions taken to maintain the financial strength of the Company in this period of low metal prices. The Company expects to

generate a positive cash flow from operations in 1987.

At December 31, 1986, net operating loss carryforwards are available to offset future regular taxable income, and investment tax credit carryforwards are available to offset future income taxes payable. The Tax Reform Act of 1986 may have a significant impact on the Company; the use of the net operating loss carryforwards will not be available to offset alternative minimum taxable income, and potential usage of investment tax credit carryforwards will be limited. See Footnote 5 in the Notes to Consolidated Financial Statements on page 22 of this Annual Report for additional information regarding these matters.

On September 3, 1986, Hecla Mining Company of Canada Ltd. ("Hecla Ltd."), a wholly owned subsidiary of Hecla Mining Company, and Highwood Resources Ltd. ("Highwood") of Calgary, Alberta, Canada, signed a definitive agreement establishing a joint venture to develop the Thor Lake, Northwest Territories, high growth metals deposit. Included in the definition of high growth metals are beryllium, yttrium, and the rare earths (also referred to as lanthanides).

Hecla Ltd. acquired a 50% interest in the joint venture and will complete a feasibility and marketing study within 18 months. At that time, Hecla Ltd. may elect to go forward with the project by reimbursing Highwood, the property owner, for 50% of its prior expenditures, estimated at \$8 million Canadian, and by financing construction of the mine and processing facilities.

Planned capital expenditures for 1987 are expected to be approximately \$2.6 million. The expenditures are expected to be funded through internally generated funds and, if necessary, the bank credit line. The discovery, development and acquisition of mineral properties are in many instances unpredictable events. Future metal prices, the success of exploration programs and other property transactions can have a significant impact on the need for capital. One of the primary reasons for the maintenance of the bank credit line is to have funds readily available to allow the Company flexibility in structuring mineral property acquisitions or ventures. The Company believes it has the flexibility to adjust its activities to cope effectively with changing economic conditions.

## **Report of Certified Public Accountants**

**The Board of Directors and Shareholders  
Hecla Mining Company**

We have examined the consolidated balance sheets of Hecla Mining Company and consolidated subsidiaries as of December 31, 1986 and 1985, and the related consolidated statements of operations, changes in shareholders' equity and changes in financial position for each of the three years in the period ended December 31, 1986. Our examinations were made in accordance with generally accepted auditing standards and, accordingly, included such tests of the accounting records and such other auditing procedures as we considered necessary in the circumstances.

In our opinion, the financial statements referred to above present fairly the consolidated financial position of Hecla Mining Company and consolidated subsidiaries at December 31, 1986 and 1985, and the consolidated results of their operations and changes in their financial position for each of the three years in the period ended December 31, 1986, in conformity with generally accepted accounting principles consistently applied during the period subsequent to the change, with which we concur, made as of January 1, 1984, in the method of accounting for materials and supplies as described in Note 2 to the financial statements.

### **COOPERS & LYBRAND**

Spokane, Washington  
February 6, 1987



1986
\$ 2,331
6,274
12,843
673
22,121
12,063
102,222
3,875
<b>\$140,281</b>
\$ 7,507
864
8,371
7,308
3,213
3,227
22,119
6,748
52,311
71,306
(11,944)
(259)
118,162
<b>\$140,281</b>

## Consolidated Statements of Operations

For the Years Ended December 31, 1986, 1985 and 1984  
(dollars and shares in thousands, except for per-share amounts)

	Year Ended December 31,		
	1986	1985	1984
Sales of concentrates and products .....	\$ 60,935	\$ 79,434	\$ 109,480
Operating costs and expenses (exclusive of items shown separately below) .....	50,437	62,279	72,268
Operating income .....	10,498	17,155	37,212
Interest and other income (Note 3) .....	1,122	3,145	4,270
Gain on sale of Sunshine Unit Area (Note 4) .....	—	—	24,073
	11,620	20,300	65,555
Other expenses:			
General and administrative .....	6,986	5,972	14,731
Exploration .....	6,744	8,744	11,909
Interest and commitment fees .....	392	489	1,642
Depreciation, depletion and amortization .....	11,112	13,764	12,677
Reduction in carrying value of mining property (Note 4) .....	9,642	—	8,067
Total other expenses .....	34,876	28,969	49,026
Income (loss) before income taxes and extraordinary credit .....	(23,256)	(8,669)	16,529
Income tax provision (benefit) (Note 5) .....	(2,024)	249	8,900
Income (loss) from continuing operations before extraordinary credit .....	(21,232)	(8,918)	7,629
Income from discontinued operation (Note 11) .....	—	4,694	—
Income (loss) before extraordinary credit .....	(21,232)	(4,224)	7,629
Extraordinary credit - Estimated effect of utilization of net operating loss carryforwards (Note 5) .....	—	—	3,617
Cumulative effect of change in accounting for supplies inventory (Note 2) .....	—	—	846
Net income (loss) .....	\$(21,232)	\$ (4,224)	\$ 12,092
Net income (loss) per share:			
Continuing operations before extraordinary credit .....	\$(0.79)	\$(0.33)	\$ 0.29
Discontinued operation .....	—	0.17	—
Extraordinary credit .....	—	—	0.13
Cumulative effect of change in accounting for supplies inventory .....	—	—	0.03
	\$(0.79)	\$(0.16)	\$ 0.45
Dividends per share .....	\$ 0.05	\$ 0.20	\$ 0.20
Weighted average number of common shares outstanding .....	26,970	26,974	26,929

The accompanying notes are an integral part of the financial statements.



1986
<b>\$(21,232)</b>
<b>11,112</b>
<b>(2,176)</b>
<b>9,642</b>
<b>(2,654)</b>
<b>—</b>
<b>—</b>
<b>—</b>
<b>(2,654)</b>
<b>6,447</b>
<b>46</b>
<b>(175)</b>
<b>(1,728)</b>
<b>—</b>
<b>34</b>
<b>—</b>
<b>4,624</b>
<b>(570)</b>
<b>(6,635)</b>
<b>75</b>
<b>(7,130)</b>
<b>(1,349)</b>
<b>(6,509)</b>
<b>(553)</b>
<b>—</b>
<b>—</b>
<b>654</b>
<b>—</b>
<b>(1)</b>
<b>—</b>
<b>100</b>
<b>(6,409)</b>
<b>8,740</b>
<b>\$ 2,331</b>

## Consolidated Statement of Changes in Shareholders' Equity

For the Years Ended December 31, 1986, 1985 and 1984

(dollars and shares in thousands, except for per-share amounts)

	Common Stock		Capital Surplus	Earnings Retained in the Business	Treasury Stock	Net Unrealized Loss on Marketable Equity Securities
	Shares	Amount				
Balances, December 31, 1983 .....	26,917	\$6,729	\$51,897	\$96,687	\$(124)	\$ (330)
Net income .....				12,092		
Cash dividends:						
Hecla .....				(4,587)		
Ranchers .....				(162)		
Gold and silver dividends by Ranchers .....				(528)		
Net change in unrealized loss on marketable equity securities (Note 3) .....						(5,225)
Stock issued under stock option plans (Note 9) .....	70	18	418			
Acquisition of treasury stock .....					(1)	
Balances, December 31, 1984 .....	26,987	6,747	52,315	103,502	(125)	(5,555)
Net (loss) .....				(4,224)		
Cash dividends .....				(5,391)		
Net change in unrealized loss on marketable equity securities (Note 3) .....						(3,293)
Acquisition of treasury stock .....					(133)	
Other .....	7	1	(4)			
Balances, December 31, 1985 .....	26,994	6,748	52,311	93,887	(258)	(8,848)
Net (loss) .....				(21,232)		
Cash dividends .....				(1,349)		
Net change in unrealized loss on marketable equity securities (Note 3) .....						(3,096)
Acquisition of treasury stock .....					(1)	
Balances, December 31, 1986 .....	26,994	\$6,748	\$52,311	\$71,306	\$(259)	\$(11,944)



## Notes to Consolidated Financial Statements

### 1. Summary of Significant Accounting Policies:

**a. Company's Business** - Hecla and its wholly-owned subsidiaries are engaged in mining and mineral processing. Sales of metal concentrates and products are made principally to custom smelters and commodity dealers. Industrial minerals are sold principally to manufacturers and wholesalers. Sales to significant metal customers, as a percentage of total sales of concentrates and products, were as follows:

	1986	1985	1984
Custom smelter .....	10.3%	12.1%	16.0%
Custom metal traders:			
Customer A .....	13.7%	23.2%	24.0%
Customer B .....	22.4%	14.0%	7.8%
Customer C .....	8.5%	15.4%	8.5%
Customer D .....	10.6%	6.2%	-

**b. Basis of Consolidation** - The consolidated financial statements include the accounts of the Company, its wholly-owned subsidiaries and its proportionate share of the accounts of the joint ventures in which it participates. All significant intercompany transactions and accounts related to the consolidated subsidiaries are eliminated.

**c. Inventories** - Inventories are stated at the lower of average cost or estimated net realizable value.

**d. Investments** - The Company follows the equity method of accounting for nonconsolidated subsidiaries and investments in common stock of operating companies 20% to 50% owned. Investments in nonoperating companies that are not intended for resale or are not readily marketable are valued at the lower of cost or net realizable value. The carrying value of marketable equity securities is based on the lower of cost or quoted market value. The cost of investments sold is determined by specific identification.

**e. Properties, Plants and Equipment** - Properties, plants and equipment are stated at cost. Maintenance, repairs and renewals are charged to operations. Betterments of a major nature are capitalized. When assets are retired or sold, the costs and related allowances for depreciation and amortization are eliminated from the accounts and any resulting gain or loss is reflected in operations. Idle facilities, placed on a standby basis, are carried at the lower of cost, less accumulated depreciation, depletion and amortization, or estimated net realizable value.

Management of the Company reviews the net carrying value of all facilities, including idle facilities, on a periodic basis. These reviews consider, among other factors, (1) the net realizable value of each major type of asset, on a property-by-property basis, to reach a judgment concerning possible permanent impairment of value and any need for a write-down in asset value, (2) the ability of the Company to fund all care, maintenance and standby costs, (3) the status and usage of the assets, while in a standby mode, to thereby determine whether some form of amortization is appropriate, and (4) current projections of metal prices that affect the decision to reopen or make a disposition of the assets.

Depreciation is computed using straight-line and declining-balance methods based on the estimated useful lives of the assets, and the unit-of-production method. Depletion is computed using the unit-of-production method.

Provisions for depreciation, depletion and amortization that are based on units of production are not made when operations are suspended. Depreciation, depletion and amortization rates are subject to periodic review to assure that asset costs are written off over their useful lives.

**f. Mine Exploration and Development** - Exploration costs are charged to income as incurred, as are normal development costs at operating mines. Major mine development expenditures at operating properties and at new mining properties not yet producing are capitalized.

**g. Reclamation of Mining Areas** - Minimum standards for mine reclamation have been established by various governmental agencies which affect certain operations of the Company. A reserve for mine reclamation has been established for restoring certain abandoned and currently disturbed mining areas, based upon estimates of cost to comply with existing reclamation standards.

**h. Income Taxes** - The benefits of investment tax credits are recognized on a flow-through basis in the year they are available to reduce the income tax provision.

**i. Net Income (Loss) Per Share** - Net income (loss) per share is based on the weighted average number of shares of common stock and common stock equivalents (stock options) outstanding during each reporting period unless the common stock

equivalents are anti-dilutive. Due to the net losses in 1985 and 1986, common stock equivalents are anti-dilutive and therefore have been excluded from the computation. All per-share amounts reflect stock splits and business combinations.

**j. Revenue Recognition** - Sales of metal products sold direct to smelters are recorded when received at the smelter at the estimated metal prices in the settlement month. Recorded values are adjusted periodically and upon final settlement. Metal in products tolled (rather than sold to smelters) is sold under contracts for future delivery; such sales are recorded at contractual amounts when products are delivered to the smelter for processing. Sales of industrial minerals are recognized as the minerals are delivered.

**k. Deferred Revenue** - Deferred revenue includes income to be recognized on the sale of certain mineral properties. Revenue is recognized when cash proceeds exceed the Company's net book value of the assets sold and the collectibility of the remaining payments is assured.

---



**2. Inventories:**

Inventories consist of the following (in thousands):

	December 31	
	1986	1985
Concentrates and metals in transit and other products .....	\$ 5,691	\$ 6,007
Industrial minerals products .....	2,837	2,287
Materials and supplies .....	4,315	4,633
	<u>\$12,843</u>	<u>\$12,927</u>

During 1984 the Company changed the inventory accounting practice at certain operations. The change involved including in inventory unused materials and supplies, which were previously charged to operations when they were purchased. The change, which is a preferable method of accounting, was made to facilitate management control of these inventories and more accurately and consistently match the cost of operations with sales. The cumulative effect of the change to 1984 earnings was \$1,175,000 before applicable income tax effect of \$329,000. The effect of the change on 1984 operations was immaterial.

**3. Investments:**

Investments consist of the following components (in thousands):

	Carrying Value	Cost	Market Value
<b>December 31, 1986</b>			
Marketable equity securities .....	\$ 6,662	\$23,247	\$ 6,662
Other investments .....	5,401	5,401	
<b>Total .....</b>	<b>\$12,063</b>	<b>\$28,648</b>	
<b>December 31, 1985</b>			
Marketable equity securities .....	\$10,959	\$23,244	\$10,959
Other investments .....	5,391	5,391	
<b>Total .....</b>	<b>\$16,350</b>	<b>\$28,635</b>	

At December 31, 1986, the portfolio of marketable equity securities includes gross unrealized gains of approximately \$1,000 and gross unrealized losses of approximately \$16,586,000 [of which approximately \$14,777,000 is attributable to the Company's ownership of Sunshine Mining Company common stock received in payment for its interest in the Sunshine Unit Area

(See Note 4)]. The net unrealized loss on marketable equity securities, that is a component of December 31, 1986 and 1985 stockholders' equity, reflects deferred tax benefits of approximately \$4,641,000 and \$3,440,000, respectively. No gains or losses were realized in 1986. Realized gains of \$454,000 and realized losses on the sale of marketable equity securities of \$357,000 are included in interest and other income during 1985 and 1984, respectively. The other investments are principally large blocks of common and preferred stock in several mining companies, and investments in various mining ventures. These securities are generally restricted as to trading or marketability although some of the shares are frequently traded on the over-the-counter market in Spokane, Washington. At December 31, 1986 and 1985, the shares of some of these companies that were traded on this market were quoted at values exceeding the Company's cost basis.

#### 4. Properties, Plants and Equipment:

The major components of properties, plants and equipment are (in thousands):

	December 31	
	1986	1985
Mining properties .....	\$ 10,213	\$ 10,422
Deferred development costs .....	52,436	60,143
Plants and equipment .....	112,364	108,916
Land .....	6,065	6,147
	181,078	185,628
Less accumulated depreciation, depletion and amortization .....	78,856	70,021
	<u>\$102,222</u>	<u>\$115,607</u>

Based on its periodic reviews of the status of various mining properties and investments, the Company determined in 1986 and 1984 that certain adjustments were appropriate to properly reflect the estimated net realizable values. The major portion of the Company's 1986 write-down of \$9,642,000 related to the Company's interest in the Revenue-Virginus mine. This interest was acquired as part of the merger with Ranchers Exploration and Development Corporation. Subsequent exploration and evaluation indicate there is little likelihood of recovering the investment in this pro-

perty. The remainder of the write-down reflects adjustments for closing out Ranchers Gold and Silver Exploration Program -1980 (a limited partnership) and the anticipated sales, at less than carrying values, of the Company's interests in the Sherman mine near Leadville, Colorado, and the Tungsten Queen mine in North Carolina. A write-down, related principally to the Company's Victoria mine and miscellaneous mining property investments, was recorded as an expense in 1984. The net book value of the major mining properties of the Company that were on a standby or idle basis at December 31, 1986 and 1985 is approximately \$50,961,000 and \$14,855,000, respectively. Included in the 1986 amount for properties on a standby or idle basis is \$41,892,000 for the Lucky Friday mine which suspended commercial operations on April 11, 1986 due to low metal prices.

In April 1984, Hecla and Sunshine Mining Company (Sunshine) entered into an agreement settling many outstanding issues between the companies. As the result of this agreement, based on estimated fair values of assets received, Hecla reported a nonrecurring gain on the sale of approximately \$24,073,000.



**5. Income Taxes:**

Major components of the Company's income tax provision are (in thousands):

	1986	1985	1984
Currently payable:			
Federal .....	-	-	\$ 3,696
State .....	\$ 152	\$ 249	533
Total current .....	152	249	4,229
Deferred:			
Benefit of reversal of previously established deferred taxes .....	(2,176)	-	-
Development costs deducted for income tax purposes, deferred for financial statement purposes .....	-	-	716
Amortization of development costs expensed for tax purposes in prior years .....	-	-	(285)
Restoration of investment tax credits .....	-	-	570
Provision for minimum tax .....	-	-	(272)
Loss on disposal of property .....	-	-	15
Other .....	-	-	310
Total deferred provision (benefit) .....	(2,176)	-	1,054
Tax effect of net operating loss carryovers .....	-	-	3,617
	\$ (2,024)	\$ 249	\$ 8,900

The annual tax provision is different from the amount which would be provided by applying the statutory federal income tax rate to the Company's pretax income (loss) from continuing operations. The reasons for the difference are as follows (in thousands):

	1986	%	1985	%	1984	%
Computed "statutory" provision (benefit) .....	\$(10,698)	(46)%	\$ (3,988)	(46)%	\$ 7,603	46%
Effect of nonutilization of net operating losses .....	8,522	36	3,988	46	-	-
Effect of percentage depletion .....	-	-	-	-	(4,581)	(28)
Provision for minimum taxes .....	-	-	-	-	3,444	21
Investment tax credits .....	-	-	-	-	(400)	(2)
Effect of nondeductible merger costs .....	-	-	-	-	2,554	15
State income taxes, net of federal tax benefit .....	152	1	249	3	280	2
	\$ (2,024)	(9)%	\$ 249	3%	\$ 8,900	54%

For financial statements, Hecla used net operating loss carryovers of \$7,900,000 in 1984 to offset otherwise taxable income. The current federal tax provision in 1984 included approximately \$3,444,000 for preference taxes that became payable when the Company used its tax basis net operating losses.

At December 31, 1986, the Company has tax basis net operating loss carryovers available to offset future regular taxable income, and investment tax credit carryovers available to offset future taxes payable. These carryovers expire as follows (in thousands):

	Net Operating Losses	Investment Tax Credits
1990....		\$ 530
1991....		243
1992....		10
1993....		2
1994....	\$ 2,664	2
1995....		216
1996....	12,335	30
1997....	7,418	2,279
1998....		769
1999....		525
2000....	14,959	340
2001....	15,862	
	\$ 53,238	\$ 4,946

For financial statement purposes, the Company has unused net operating loss carryovers of approximately \$27,118,000, and investment tax credit carryovers of approximately \$2,735,000.

On October 22, 1986, the existing federal income tax law was substantially revised by the passage of the Tax Reform Act of 1986. Some of the changes included in the new tax legislation that will significantly affect the Company are reduction of the maximum corporate tax rate from 46% to 34%, the institution of a more comprehensive Alternative Minimum Tax, and the repeal of the investment tax credit retroactive to January 1, 1986. The new tax legislation also reduces investment tax credit carryovers from years prior to 1986 by 17.5% beginning in 1987 and 35% for tax years beginning in 1988 and thereafter. In the Company's case, while existing net operating loss carryovers will offset regular taxable income, they will not be available to offset Alternative Minimum Taxable Income.

#### 6. Line of Credit:

Hecla has a \$50 million unsecured revolving credit and term loan agreement with a group of five major banks. The credit agreement provides for revolving credits through December 31, 1988 which can then be converted into four-year term notes payable in equal quarterly installments. The interest rate on revolving credit loans is the lead bank's average prime commercial rate with options to borrow at the London Interbank Offered Rate (LIBOR) plus 1/2%, or a "CD Base Rate" plus 5/8% as in effect from time to time. No compen-

sating balances are required. A commitment fee is payable quarterly at the rate of three-eighths of 1% per annum on the average daily unused portion of the revolving credit. The credit agreement contains covenants concerning certain financial statement ratios and dividends or other distributions that become effective when money is borrowed. At December 31, 1986, approximately \$72 million would be available for dividends and other distributions assuming the dividend restrictions were in effect.



### 7. Contingencies:

Various legal actions are pending against the Company and certain of its subsidiaries. The Company is also involved in certain legal proceedings involving environmental matters. The Company has been notified by the U.S. Environmental Protection Agency (EPA) that it is a potentially responsible party with respect to one EPA designated priority list site located in the State of Colorado and a second site proposed for listing in the State of Utah. The Company also has been named as a third party defendant in two separate lawsuits originally brought by the State of Colorado to recover natural resource damages and response costs under the Comprehensive Environmental Response, Com-

pensation and Liability Act (CERCLA) at two Colorado mining sites. The Company is also named as one of a number of defendants in a suit brought under CERCLA by the United States Government to recover response costs at one of the sites subject to the State of Colorado litigation. Although the ultimate disposition of these actions is not presently determinable, it is the opinion of Hecla's management that the outcome of the suits and proceedings mentioned, and other miscellaneous litigation and proceedings now pending, will not have a material adverse effect on the operations or the financial condition of Hecla and its consolidated subsidiaries.

### 8. Employee Benefit Plans:

The Company and its wholly-owned subsidiaries have pension plans covering substantially all employees. Total pension expense was approximately \$1,098,000 for 1986, \$1,371,000 for 1985, and \$1,791,000 for 1984, and consists of normal cost based on actuarial studies plus amortization of past service costs over periods ranging from 10 to 30 years. A comparison of the actuarial present value of accumulated plan benefits and plan net assets for the Company's defined benefit plans at the most recently completed valuation dates is presented below (in thousands):

	Plan Years Ended In	
	1985	1984
Actuarial present value of		
accumulated plan benefits:		
Vested .....	\$ 18,210	\$ 17,355
Nonvested .....	863	826
	<u>\$ 19,073</u>	<u>\$ 18,181</u>
Net assets available for benefits	\$ 22,651	\$ 19,669

The range of average assumed rates of return used in determining the actuarial present value of accumulated plan benefits was 6.5% to 7.0%. Based on the latest actuarial valuations, the Company's pension plans are currently funded.

In November 1986, the Company offered a special early retirement option to participants in the Hecla pension plan who had attained age 55 with ten years of service and whose combined age and years of service total at least 75. The option expired on December 1, 1986. In general, the plan provides that a participant electing the option, and if such option is accepted by the Company, would retire no later than March 1, 1987 with no actuarial reduction in their accrued benefit for early retirement. In addition, the participant will continue to be covered under the Company's group medical and life insurance programs until normal retirement age is reached. The special early retirement program will be paid for out of general corporate funds until the participant reaches normal retirement age or age 60 with 30 years of service, at which time payments will be made by the pension trust. Approximately \$402,000 was accrued in December, 1986 as the estimated liability for those eligible employees who elected to participate in the program.

In addition to providing pension benefits, the Company provides certain life insurance, medicaid and medicare supplemental benefits. Substantially all of the Company's employees may become eligible for the life insurance benefits if they reach normal retirement age while working for the Company. The medicaid and medicare supplement benefits apply only to those employees who retired prior to October 1, 1982. The cost of these life insurance and health care benefits is recognized as an expense when payments are made and totalled approximately \$76,000, \$113,000 and \$141,000 in 1986, 1985 and 1984, respectively.

The Company has a Deferred Compensation Plan which permits eligible officers to defer a portion of their compensation. The deferred compensation, which together with Company matching amounts is accrued but unfunded, is distributable in cash after

retirement or termination, and at December 31, 1986 and 1985, amounted to approximately \$1,356,000 and \$1,146,000, respectively. The Company has insured the lives of certain officers, who participate in the deferred compensation program, to assist in the funding of the deferred compensation liability. The Company is the owner and beneficiary of the insurance policies.

During 1986, the Company implemented a salaried employee's Capital Accumulation Plan which is available to all salaried employees after completion of one year of service. The employee may contribute from 2% to 10% of their compensation to the Plan. The Company makes a matching contribution of 25% of an employee's contribution up to, but not exceeding, 5% of the employee's salary. The Company's contribution for 1986 was approximately \$20,000.

#### 9. Stock Option Plans:

Options have been granted to certain officers and employees to purchase common stock at a price not less than the fair market value at the date

of grant. Options outstanding at December 31, 1986 are immediately exercisable for periods of up to three years.

Transactions concerning stock options are summarized as follows:

	Stock Option Plans		Other		Total Shares
	Shares	Price	Shares	Price	
Outstanding, December 31, 1983.....	35,849	\$2.72-18.62	46,500	\$2.58-13.97	82,349
Year Ended December 31, 1984:					
Granted.....	29,800	16.37			29,800
Cancelled.....			(3,976)	2.58-13.97	(3,976)
Exercised.....	(27,149)	2.72-10.54	(42,524)	6.88	(69,673)
Outstanding, December 31, 1984.....	38,500	16.37-18.62	0		38,500
Year ended December 31, 1985:					
Granted.....	30,400	15.62-16.50			30,400
Outstanding, December 31, 1985.....	68,900	15.62-18.62	0		68,900
Year ended December 31, 1986:					
Granted.....	61,100	10.12-13.75			61,100
Expired.....	(9,450)	16.37-18.62			(9,450)
Outstanding, December 31, 1986.....	120,550	\$10.12-16.50	0		120,550

All of the outstanding stock options were granted in tandem with a corresponding number of stock appreciation rights. These rights entitle the recipient to payment for the increase in the market value of the stock, above the option price, at the

date of exercise. Half of this payment is to be made in cash and half in the form of newly issued common stock. The exercise of either rights or options serves to cancel the other.



**10. Business Segments**

(in thousands):

	1986	December 31, 1985	1984
Net sales to unaffiliated customers:			
Metals .....	\$ 40,002	\$ 57,517	\$ 87,576
Industrial minerals .....	20,933	21,917	21,904
Total sales .....	\$ 60,935	\$ 79,434	\$ 109,480
Operating income:			
Metals .....	\$ 3,624	\$ 9,780	\$ 29,128
Industrial minerals .....	6,874	7,375	8,084
Operating income .....	\$ 10,498	\$ 17,155	\$ 37,212
Capital expenditures:			
Metals .....	\$ 3,328	\$ 1,833	\$ 6,548
Industrial minerals .....	602	2,168	2,797
General corporate assets .....	3,047	5,258	3,203
	\$ 6,977	\$ 9,259	\$ 12,548
Depreciation, depletion and amortization:			
Metals .....	\$ 7,017	\$ 9,626	\$ 8,864
Industrial minerals .....	3,082	3,568	3,137
General corporate assets .....	1,013	570	676
	\$ 11,112	\$ 13,764	\$ 12,677
Identifiable assets:			
Active metals facilities .....	\$ 20,001	\$ 72,391	\$ 87,968
Industrial minerals business .....	28,718	30,344	27,301
General corporate assets .....	40,601	52,644	60,914
Idle and standby metal facilities .....	50,961	15,553	14,122
	\$ 140,281	\$ 170,932	\$ 190,305

Operating costs and identifiable assets of each segment are those that are directly identified with those operations. General corporate assets consist

primarily of cash, receivables, investments and corporate fixed assets.

**11. Discontinued Operation:**

Hecla and El Paso Natural Gas Company (El Paso) were the partners in a venture that was formed to operate the Lakeshore copper mine in Arizona. Hecla wrote off its investment in the mine property in 1978. The partnership had continuing commitments under power supply agreements that ex-

pired in October 1985. Simultaneously, the partnership was terminated and the remaining assets were distributed to the partners. Accordingly, Hecla eliminated its net reserve for discontinued operations and recognized \$4,694,000 of income from discontinued operations in 1985.

**12. Quarterly Data (Unaudited):**

Selected unaudited quarterly data for the years ended December 31, 1986 and 1985 is as follows (in thousands except for per-share amounts):

1986					
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
Sales and other operating revenue . . . . .	\$ 20,532	\$ 15,238	\$ 16,004	\$ 10,283	\$ 62,057
Operating income (loss) . . . . .	\$ 4,445	\$ 3,154	\$ 3,819	\$ (920)	\$ 10,498
Net (loss) . . . . .	\$ (1,849)	\$ (2,971)	\$ (1,991)	\$ (14,421)	\$ (21,232)
Net (loss) per share . . . . .	\$(0.07)	\$(0.11)	\$(0.07)	\$(0.54)	\$(0.79)
1985					
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Total
Sales and other operating revenue . . . . .	\$ 20,185	\$ 23,286	\$ 21,575	\$ 17,533	\$ 82,579
Operating income . . . . .	\$ 2,635	\$ 6,169	\$ 5,329	\$ 3,022	\$ 17,155
Income (loss) from continuing operations . . . .	\$ (4,098)	\$ 140	\$ (1,084)	\$ (3,876)	\$ (8,918)
Income from discontinued operation . . . . .	1,410	1,410	1,874	-	4,694
Net income (loss) . . . . .	\$ (2,688)	\$ 1,550	\$ 790	\$ (3,876)	\$ (4,224)
Net income (loss) per share:					
Continuing operations . . . . .	\$(0.15)	\$ 0.01	\$(0.04)	\$(0.15)	\$(0.33)
Discontinued operation . . . . .	.05	.05	.07	-	0.17
	\$(0.10)	\$ 0.06	\$ 0.03	\$(0.15)	\$(0.16)





Board of Directors from left to right: Norman Visnes, John M. Dahl, Fred E. Burnet, William A. Griffith, W. Burney Warren, Leland O. Erdahl, Richard J. Stoehr, Arthur Brown, John E. Clute.

#### DIRECTORS

**ARTHUR BROWN (1) (4)** President Hecla Mining Company

**FRED E. BURNET (1) (4)** Retired Chairman and Chief Executive Officer Cominco Ltd; Director Pacific Hide and Fur, Inc.

**JOHN E. CLUTE (1) (5)** Senior Vice President, Human Resources and General Counsel Boise Cascade Corporation; Director United First Federal Savings and Loan Association

**JOHN M. DAHL (2) (5)** Consultant; Retired Vice Chairman and Chief Executive Officer J. R. Simplot Company

**LELAND O. ERDAHL (2) (3)** Consultant; former President Ranchers Exploration and Development Corporation; Trustee, Freedom Investment Trust; Director of Canyon Resources Corporation; Director of Coca Mines, Inc.

**WILLIAM A. GRIFFITH (1)** Chairman of the Board and Chief Executive Officer Hecla Mining Company

**RICHARD J. STOEHR (2) (3)** Mining Industry Consultant; Retired Senior Vice President Homestake Mining Company

**NORMAN VISNES (3) (4)** Consultant; Retired Vice President - Mining ASARCO Incorporated

**W. BURNEY WARREN (4) (5)** Retired President El Paso Company; Director Texas Commerce Bank-West

#### OFFICERS AND MANAGEMENT STAFF

**CORPORATE HEADQUARTERS -**  
Coeur d'Alene, Idaho

**William A. Griffith** - Chairman of the Board and Chief Executive Officer

**Arthur Brown** - President and Chief Operating Officer

**William J. Grismer** - Senior Vice President, Secretary

**Gene K. Ealy** - Vice President - Exploration

**Robert H. Wallace** - Vice President - Controller

**Elmer L. Bierly** - Vice President - Investor and Public Affairs

**Roger A. Kauffman** - Vice President - Industrial Minerals

**Thomas T. Giles** - Treasurer

**Michael P. Gross** - Manager - Metal Mines

**Ronald B. Kahler** - Manager - Technical Services

**Jon T. Langstaff** - Personnel Manager

**Ned M. Tower** - Manager - Marketing

**Michael B. White** - Corporate Counsel, Assistant Secretary

**David F. Wolfe** - Assistant Treasurer

**W. Glen Zinn** - Assistant to the Chairman

#### OPERATIONS

**Escalante Unit** - Enterprise, Utah  
Edward H. Hahne - Manager

**Lucky Friday Unit** - Mullan, Idaho  
George R. Johnson - Manager

**Republic Unit** - Republic, Washington  
Fred Stahlbush - Manager

**Highwood Thor Lake Joint Venture**  
-Northwest Territories, Canada  
Ralph R. Noyes - Manager

#### SUBSIDIARY COMPANIES

**Colorado Aggregate Company of New Mexico** - Blanca, Colorado

Robert W. Oringdolph - President

**Kentucky-Tennessee Clay Company**  
- Mayfield, Kentucky

Ralph E. Rhodes, Jr. - President

#### HECLA MINING COMPANY

Incorporated under the laws of the State of Delaware

6500 Mineral Drive

Box C - 8000

Coeur d'Alene, ID 83814

Phone 208-769-4100

Telex 326476

**Transfer Agent and Registrar**

Manufacturers Hanover Trust Company  
Bank Window

Church Street Station

New York, New York 10015

Shares of the Corporation are traded on the New York Stock Exchange, and the Pacific Stock Exchange. The Hecla Trading Symbol is HL

(1) Member of Executive Committee

(2) Member of Finance Committee

(3) Member of Audit Committee

(4) Member of Directors Nominating Committee

(5) Member of Compensation Committee



*William A. Griffith, Hecla's Chairman and Chief Executive Officer, will retire following the 1987 annual meeting, after a distinguished career in the mining industry.*

*He joined Hecla in 1968 as Research Director, was promoted to Vice President in 1973, and was elected President and Chief Executive Officer in 1979. Under his leadership, Hecla has survived the difficult years, prospered, and grown from a small company operating two mines in northern Idaho into a diversified and nationally recognized corporation well positioned to meet the challenges of the future.*

*During his early years with Hecla, he was recognized with the 1976 A. M. Gaudin Award and the 1981 Robert H. Richards Award of the American Institute of Mining, Metallurgical and Petroleum Engineers for his contributions as a metallurgist.*

*During his tenure as President and Chairman, he was designated "Best Chief Executive" in the silver mining industry for five consecutive years by THE WALL STREET TRANSCRIPT. He also found time to serve as Chairman of the Idaho Mining Association, the Silver Institute and Western Regional Council, and as a Director of the American Mining Congress and a number of other organizations.*

*His contribution to Hecla Mining Company and to mining has been significant. We are fortunate that he will be available to continue to serve as a Director, and we wish him the best in the years ahead.*



This page is a reference page used to track documents internally for the Division of Oil, Gas and Mining

Mine Permit Number MO210054 Mine Name Escalante Silver  
Operator Hecla mining co Date 12-31-1986  
TO \_\_\_\_\_ FROM \_\_\_\_\_

☐ CONFIDENTIAL ☐ BOND CLOSURE ☐ LARGE MAPS ☒ EXPANDABLE  
☐ MULTIPUL DOCUMENT TRACKING SHEET ☐ NEW APPROVED NOI  
☐ AMENDMENT ☐ OTHER \_\_\_\_\_

Description

YEAR-Record Number

☐ NOI ☒ Incoming ☐ Outgoing ☐ Internal ☐ Superceded

1986 Annual Report

☐ NOI ☐ Incoming ☐ Outgoing ☐ Internal ☐ Superceded

☐ NOI ☐ Incoming ☐ Outgoing ☐ Internal ☐ Superceded

☐ NOI ☐ Incoming ☐ Outgoing ☐ Internal ☐ Superceded

☐ TEXT/ 8 1/2 X 11 MAP PAGES ☐ 11 X 17 MAPS ☐ LARGE MAP

COMMENTS: \_\_\_\_\_

CC: \_\_\_\_\_